

NOTE 15 – RESTRICTIONS, RESERVES, DESIGNATIONS, AND CHANGES IN EQUITY**Net Assets**

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are classified into three categories:

Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets – Results when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net assets – Consists of net assets that do not meet the definition of the two preceding categories.

Restricted Net Assets – Business-type Activities (in thousands)

\$ 197,075	Public Transportation Enterprise restricted for future construction projects (\$186,211) and debt service (\$10,864).
98,889	Water Quality Enterprise restricted for debt service (\$95,500) and litigation settlements (\$3,389).
13,701	King County International Airport Enterprise restricted for future construction projects.
<u>2,000</u>	Radio Communications Enterprise restricted for construction.
<u>\$ 311,665</u>	Total Business-type Restricted Net Assets

Reserves and Designations

King County records two general types of reserves. One type indicates that a portion of the fund balance is legally segregated for a specific future use; the other type indicates that a portion of the fund balance is not available for appropriation. Designated fund balances represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

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Following is a list of all reserves and designations used by King County and a description of each:

Reserved Fund Balances (in thousands)

	<u>General Fund</u>	<u>Public Health Fund</u>	<u>Special Revenue</u>	<u>Nonmajor Debt Service</u>	<u>Capital Projects</u>
Reserved for:					
Inventory	\$ -	\$ 1,196	\$ -	\$ -	\$ -
Prepayments	-	-	4,125	-	198
Encumbrances	7,545	779	22,622	-	46,147
Advances to other funds	3,800	-	-	-	-
Animal services	450	-	-	-	-
Crime victim compensation program	268	-	-	-	-
Criminal justice	5,342	-	-	-	-
Debt service	-	-	147	-	-
Drug enforcement program	100	-	-	-	-
Antiprofitteering program	295	-	-	-	-
Dispute resolution centers	83	-	-	-	-
Inmate welfare	432	-	-	-	-
Laptop replacement	353	-	-	-	-
Real property title assurance	25	-	-	-	-
Training and equipment for Medic One	-	491	-	-	-
Youth sports facilities grant endowment	-	-	646	-	-
PFD stadium bond debt service	-	-	-	20,005	-
PFD stadium bond debt service - escrow	-	-	-	3,638	-
Traffic mitigation	-	-	-	-	3,519
Total reserved fund balances	<u>\$ 18,693</u>	<u>\$ 2,466</u>	<u>\$ 27,540</u>	<u>\$ 23,643</u>	<u>\$ 49,864</u>

Reserved for inventory – Segregates a portion of fund balance in the amount of the inventory of supplies carried as an asset; it represents resources that are not available and spendable for the fund's current operations.

Reserved for prepayments – Segregates a portion of fund balance equal to the asset prepayments; it does not represent available, spendable resources for the fund's current operations.

Reserved for encumbrances – Segregates a portion of fund balance for commitments made for goods or services that have not been delivered or completed as of year-end. The budget for these commitments will be reestablished in the new year without reappropriation.

Reserved for advances to other funds – Segregates a portion of fund balance for advances to other funds (the noncurrent portion of interfund loans receivable) to indicate that they do not constitute available financial resources and are not available for appropriation.

Reserved for animal services – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding the animal services program, which promotes and enforces the humane treatment of the animal population of King County.

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Reserved for crime victim compensation program – Segregates a portion of fund balance to indicate that resources are legally restricted to the crime victim compensation program and are not spendable resources for other expenditures.

Reserved for criminal justice – Segregates a portion of fund balance to indicate that resources are to be used exclusively for criminal justice purposes.

Reserved for debt service – Segregates a portion of fund balance to indicate that resources are to be used solely for the payment of debt service.

Reserved for drug enforcement program – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purposes of enhancing enforcement of the Uniform Controlled Substances Act, chapter 69.50 RCW, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofitteering program – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purposes of the investigation and prosecution of any offense included in the definition of criminal profiteering set forth in chapter 9A.82 RCW.

Reserved for dispute resolution centers – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding dispute resolution centers.

Reserved for inmate welfare – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the welfare of inmates held by the Department of Adult and Juvenile Detention.

Reserved for laptop replacement – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of replacing laptop computers used by police officers.

Reserved for real property title assurance – Segregates a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the payment of damages to any person sustaining loss or damage, through any omission, mistake, or misfeasance of the registrar of titles, or of any examiner of titles, or of any deputy, or by the mistake or misfeasance of the clerk of the court, or any deputy, in the performance of their respective duties under the provisions of chapter 65.12 RCW Registration of Land Titles (Torrens Act).

Reserved for training and equipment for Medic One – Segregates a portion of fund balance to indicate that the use of donations from individuals to Medic One are restricted to equipment purchases and training for paramedics and medical services officers.

Reserved for youth sports facilities grant endowment – Segregates a portion of fund balance pending a decision to establish a separate Permanent Fund for an endowment. The investment income from the endowment will be used exclusively to supplement the Youth Sports Facilities Grant Fund for the acquisition and operation of outdoor sports fields for youth.

Reserved for PFD stadium bond debt service – Segregates the revenues collected by the County that are earmarked for future debt service payments on the 1997A-1, 1997B, 1997D, 2002 Refunding, and 2004D Refunding tax exempt Baseball Stadium bond issues.

Reserved for PFD stadium bond debt service – escrow – Segregates the revenues collected by the County that are earmarked for future debt service payments on the 1997A-2, 1997C, and 2004C Refunding taxable Baseball Stadium bond issues.

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Reserved for traffic mitigation – Segregates a portion of fund balance related to the mitigation payment system revenues to indicate that resources are legally restricted solely for the purpose of funding growth-related traffic mitigation projects.

Designated Fund Balances (in thousands)

	<u>General Fund</u>	<u>Public Health Fund</u>	<u>Nonmajor Special Revenue</u>
Designated for:			
Equipment replacement	\$ -	\$ -	\$ 4,498
Capital projects	7,013	-	-
Claims and judgments	-	1,891	-
DDES	-	-	2,523
Environmental health services	-	3,290	-
FEMA match	-	-	142
Operating reserve	-	-	2,540
PIHP risk reserve	-	-	2,739
FMAP adjustment	-	-	2,383
Reappropriation	3,550	99	4,979
Contingencies	15,276	-	-
Children and family services program	<u>2,842</u>	<u>57</u>	<u>-</u>
Total designated fund balances	<u>\$ 28,681</u>	<u>\$ 5,337</u>	<u>\$ 19,804</u>

Designated for equipment replacement – Indicates that a portion of fund balance has been earmarked for the replacement of equipment.

Designated for capital projects – Identifies a portion of fund balances in the General and Special Revenue Funds equal to the budget for capital projects not expended and expected to be reappropriated for the coming year. The projects may be decreased, increased, and changed in scope by the County Council in their budget deliberations.

Designated for claims and judgment – Segregates a portion of fund balance to indicate that resources have been earmarked for payment of legal settlements relating to the collection of past Public Health revenues.

Designated for DDES – In the Department of Development and Environmental Services (DDES) Fund, this account sets aside revenues for permit fee supported areas of DDES in the following categories: (1) Reserve for Staff Reductions; (2) Revenue Shortfall Reserve (amount to cover a 15 percent fee revenue shortfall for three months at the budgeted level for fee revenue); and (3) Reserve for Fee Waivers and other Unanticipated Costs.

Designated for environmental health services – Segregates environmental health fee revenue which may only be used by Environmental Health Services as mandated by the Board of Health.

Designated for FEMA match – Identifies a portion of fund balance in the Flood Control Zone Districts Fund that has been designated for future use as a local match for federal and state grants in the event of a federally-declared flood disaster.

Designated for operating reserve – Funds designated from Mental Health revenue that are set aside according to the King County Regional Services Network (KCRSN)'s contract with the

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State Mental Health Division, totaling approximately 5 percent of annual revenues if funds are available. Operating reserve funds are set aside to maintain adequate cash flow for the provision of mental health services.

Designated for Prepaid Inpatient Health Plan (PIHP) risk reserve – Funds used to cover inpatient adjustments, outpatient tier benefits, and closeout expenditures in case the King County Regional Support Network (KCRSN) becomes insolvent. The KCRSN is funded primarily by capitated payments from the State based on the number of Medicaid recipients in King County. These revenues support services for people with mental illness in King County.

Designated for Federal Medicaid Assistance Percentage (FMAP) adjustment – Designates funds from the King County Regional Support Network (KCRSN)'s revenues to pay off an obligation to the State Mental Health Division (MHD) for payment adjustments that arose from prior year FMAP rate corrections, changes in revenue calculations, and different payment methodologies. The designated amount must be paid to the State in full no later than June 30, 2007. Monthly payments are being made until that time.

Designated for reappropriation – Used at year-end for lapsed appropriations for which special requests have been made to obtain reappropriation in the coming year.

Designated for contingencies – In the General Fund, this account segregates a portion of fund balance to indicate that resources have been earmarked by county ordinance for the following: (1) maintenance of essential county services in the event that General Fund revenue collections in a given fiscal year are less than 97 percent of adopted estimated revenues; (2) payment of legal settlements relating to the collection of past General Fund revenues; (3) payment of catastrophic losses in excess of the Insurance Fund reserve and all other fund balances; and (4) requests for priority capital maintenance projects if and when the contingencies reserve exceeds \$15 million.

Designated for children and family services programs – Segregates a portion of fund balance to indicate that resources have been earmarked by county ordinance to provide children and family services to the residents of King County.

Management Plans for Internal Service Fund Unrestricted Net Assets

The following Internal Service Funds have unrestricted net assets that have been earmarked by County management for a specific future use as of December 31, 2005:

Department of Executive Service (DES) Equipment Replacement Fund – \$804 thousand for the replacement of personal computers.

Information and Telecommunication Services Fund – Data Processing Subfund – \$2.6 million for the replacement of electronic data processing equipment.

Information and Telecommunications Services Fund – Telecommunications Subfund – \$1.6 million for the replacement of telecommunications equipment.

Insurance Fund – \$14.1 million for catastrophic losses. The catastrophic loss reserve will be used to respond to large, nonrecurring losses exceeding \$1 million per incident.

King County Geographic Information Service (GIS) Fund – \$120 thousand for the replacement of GIS equipment.

Motor Pool Equipment Rental Fund – \$3.2 million for the replacement of rental equipment.

Public Works Equipment Rental Fund – \$9.0 million for the replacement of rental equipment.

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Wastewater Equipment Rental Fund – \$4.1 million for the replacement of rental equipment.

Restatements of Beginning Balances

Criminal Justice Fund – On January 1, 2005, the Criminal Justice Fund was closed and the fund balance was transferred to the General Fund.

Interest Receivable – In a prior year, an error was made in recording interest receivable in the General Fund resulting in an overstatement of \$4,387 thousand which was carried forward to 2005. In 2005 the overstatement of interest receivable was corrected and the beginning fund balance restated.

Duplicate Revenue Adjustment – In 1996 there was a duplicate posting of revenues and an overstatement of accounts receivable of \$223 thousand in the Miscellaneous Grant Fund. In 2005 the overstatement of accounts receivable was corrected and the beginning fund balance restated.

Public Defense Grant Revenue Adjustment – In a prior year, grant revenue for a Public Defense grant was deposited into the Public Defense Department in the General Fund rather than recorded as revenue in the Miscellaneous Grant Fund.

Public Health Patient Revenue Adjustment – Public Health's patient generated revenues had erroneously been recorded using the cash method of accounting which records revenue when money is actually received. This method does not meet generally accepted accounting principles (GAAP). This prior period adjustment increases Public Health's beginning fund balance by \$3,886 thousand for revenues earned in 2004 and collected in 2005.

Prior Period Expenditure – Certain retroactive pay for job classification compensation adjustments were paid but not recorded as expenditures in a prior year. This Prior Period Expenditure Adjustment recognizes the reduction in the beginning fund balance that resulted from these payments (see the two tables below for the funds impacted).

The following schedules present detailed information regarding restatements of beginning balances (in thousands):

	Governmental Activities	Total Governmental	General Fund	Public Health Fund	Nonmajor Governmental	Nonmajor Special Revenue Funds
Net Assets/Fund Balance -						
December 31, 2004	\$ 1,246,258	\$ 407,598	\$ 122,958	\$ 10,555	\$ 274,085	\$ 109,956
Criminal Justice	-	-	3,732	-	(3,732)	(3,732)
Interest Receivable	(4,387)	(4,387)	(4,387)	-	-	-
Duplicate Revenue Adj.	(223)	(223)	-	-	(223)	(223)
Public Defense grant revenue	-	-	(204)	-	204	204
Public Health Patient Revenue Adj.	3,886	3,886	-	3,886	-	-
Prior period expenditure	(499)	(362)	(156)	-	(206)	(206)
Net Assets/Fund Balance -						
January 1, 2005 (Restated)	<u>\$ 1,245,035</u>	<u>\$ 406,512</u>	<u>\$ 121,943</u>	<u>\$ 14,441</u>	<u>\$ 270,128</u>	<u>\$ 105,999</u>
			Nonmajor Special Revenue Funds	Criminal Justice Fund	Development and Environmental Services	Miscellaneous Grant Fund
Net Assets/Fund Balance -						
December 31, 2004			\$ 109,956	\$ 3,732	\$ 9,956	\$ 2,063
Criminal Justice			(3,732)	(3,732)	-	-
Interest Receivable			-	-	-	-
Duplicate Revenue Adj.			(223)	-	-	(223)
Public Defense grant revenue			204	-	-	204
Public Health Patient Revenue Adj.			-	-	-	-
Prior period expenditure			(206)	-	(206)	-
Net Assets/Fund Balance -						
January 1, 2005 (Restated)			<u>\$ 105,999</u>	<u>\$ -0-</u>	<u>\$ 9,750</u>	<u>\$ 2,044</u>

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	Net Assets 12/31/04	Prior Period Expenditure	Net Assets 01/01/05 (Restated)
Major Enterprise Funds			
Public Transportation	\$ 1,203,760	\$ -	\$ 1,203,760
Water Quality	339,949	-	339,949
Nonmajor Enterprise Funds			
King County International Airport Enterprise Fund	64,755	(12)	64,743
Solid Waste Enterprise Fund	118,783	(71)	118,712
Other Enterprise Funds	19,254	-	19,254
Total Enterprise Funds	1,746,501	(83)	1,746,418
Business-type activities	<u>\$ 1,732,249</u>	<u>\$ (83)</u>	<u>\$ 1,732,166</u>
Internal Service Funds			
Construction and Facilities Management Fund	\$ (1,311)	\$ (35)	\$ (1,346)
Employee Benefits Program Fund	11,540	(32)	11,508
Financial Management Services Fund	3,711	(41)	3,670
Insurance Fund	28,598	(3)	28,595
Motor Pool Equipment Rental Fund	18,119	(6)	18,113
Public Works Equipment Rental Fund	21,848	(19)	21,829
Safety and Workers' Compensation Fund	(43,352)	(1)	(43,353)
Other Internal Service Funds	13,132	-	13,132
Total Internal Service Funds	<u>\$ 52,285</u>	<u>\$ (137)</u>	<u>\$ 52,148</u>

Component Unit – Harborview Medical Center (HMC)**Restricted Net Assets**

Restricted expendable net assets – The \$192,816 thousand consists of investments restricted for capital use and by donor. Access to investments restricted for capital use is restricted by King County for designated capital projects. Investments restricted by donor represent assets that are restricted by creditors, grantors, or contributors external to the HMC.

Restricted nonexpendable net assets – The \$1,237 thousand consists of permanent endowments by donors.

Component Unit – Cultural Development Authority of King County (CDA)**Restricted Net Assets**

Restricted expendable net assets – \$8,009 thousand is restricted by RCW 67.28.180.3 and King County ordinance for use for arts and heritage cultural program awards according to a specified formula.

Restricted nonexpendable net assets – \$11,392 thousand is a long-term endowment funded from a portion of the hotel/motel tax pursuant to RCW 67.28.180.3(e) to finance future arts and heritage cultural programs.